

# HIGHER EDUCATION

**Overview of Governor's Compact with Higher Education.** In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) that calls for the Governor to provide the UC and CSU with a specified level of General Fund support, as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. The Governor's 2007-08 Budget proposal provides funding for UC and CSU pursuant to this agreement. Specifically, the *compact* contains the following provisions:

- *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement;
- *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11;
- *General Support.* Beginning in fiscal year 2005-06 and 2006-07, the Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from **2007-08** to 2010-11), the Governor will provide increases of 4 percent annually.
- *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,350 FTES at CSU.
- *Long-Term Funding Needs.* Beginning in 2008-09, through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- *Student Fees.*

**Undergraduate Fees.** In an effort to better stabilize fees after the sharp increases of the past couple of years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU may increase fees up to 10 percent.

**Teacher Credentialing Fees.** Fees will increase by no more than 10 percent annually.

**Academic Graduate Student Fees.** Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter, the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors, including, the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

**UC Professional School Fees.** UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs.

**Student Fee Revenues.** UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase in fee revenues with a corresponding General Fund reduction, as the state has done in the past).

- **Accountability Measures.** In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

**Student Eligibility.** Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

**Community College Transfer Students.** Both UC and CSU will continue to accept all qualified community college transfer students.

**Community College Course Transfer.** Both UC and CSU will increase the number of course articulation agreements, as they relate to academic "majors," with community colleges. In 2005, UC agreed to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU agreed to establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

**Summer Term/Off-Campus Enrollment Levels.** By 2010-11, both UC and CSU will expand student enrollments in summer session and through off-campus offerings to a level equivalent to 40 percent of regular-term enrollments.

**Academic Outreach Efforts.** UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue the most effective academic outreach programs.

**A through G Course Offerings.** Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

**Public Service.** UC and CSU agree to strengthen student community service programs.

**Time to Degree.** Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduation rates, and time-to-degree.

**Teacher Candidates.** Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

## **OVERARCHING HIGHER EDUCATION ISSUES**

**Student Enrollment Growth (UC and CSU).** Pursuant to the Governor's compact with UC and CSU, the Administration proposes to fund enrollment growth equivalent to 2.5 percent, which is consistent with the enrollment projections at the UC and CSU. For UC, this equates to an increase of approximately 5,000 FTES and \$54.4 million; for CSU, enrollments are proposed to increase by approximately 8,355 FTES and \$35.5 million.

Imbedded in the Governor's enrollment growth proposal is a substantial change in the methodology used by the state to calculate the per student "marginal cost of instruction," which is the rate of funding provided by the state for each new student. Specifically, the rate used by the Department of Finance in the Governor's 2007-08 proposal is derived from a methodology that was rejected by the Legislature during the current year budget negotiations.

In 2005, the Legislature requested that the Department of Finance and the Legislative Analyst convene a workgroup to examine possible changes to the marginal cost methodology in order to better capture the costs of educating students at UC and CSU. This request was spurred by a growing sense, both within the higher education segments and among legislators and staff that the per-student rate had not kept pace with actual costs incurred by the institutions in educating students.

### ***Budget Issues***

While enrollment growth of 2.5 percent appears reasonable at this point in time, the Legislature will want to continue examining enrollment growth trends to ensure that funds allocated for this purpose are indeed needed. Further, it remains unclear if the "marginal cost" methodology employed by the Department of Finance in constructing the Governor's Budget is the methodology that will accomplish the Legislature's funding objectives.

**Student Enrollment Growth (Community Colleges).** While the California Community Colleges do not have a "compact" with the Governor, he does provide \$238.2 million to fund enrollment growth of two percent throughout the community college system. These funds will allow colleges statewide to grow by an additional 23,000 FTES.

Until recently, statute dictated that community colleges were required to receive a minimum level of growth funding equivalent to the level of statutory growth provided to the K-12 system. However, legislation enacted in 2006 (Chapter 631, Statutes of 2006) establishes an alternative growth formula for community colleges which equally weights the 19 to 24-year old populations and the 25 to 65-year old populations. Based on that computation, the minimally funded growth rate for community colleges would be 1.65 percent. Funds provided in the Governor's budget exceed this amount.

### ***Budget Issues***

While the Legislature remains supportive of expanding access to higher education, it wants to neither over-appropriate funds for enrollment growth (since those funds will simply revert to the Proposition 98 Reversion Account), nor under-appropriate, thereby limiting student access. Given the current-year reduction in community college fees (from \$26 per unit to \$20 per unit), the Legislature will want to remain attentive to the student enrollment trends at colleges during the Spring 2007 term to determine if the two percent enrollment growth proposed by the Governor is indeed an appropriate funding level for the 2007-08 fiscal year.

**General Campus Support.** Consistent with the Governor's compact, his 2007-08 budget provides a General Fund, general support increase of four percent for both UC and CSU (including a four percent increase for the Legislative, Executive, and Judicial Fellows programs)

totaling \$225.5 million (\$116.7 million to UC and \$108.8 million to CSU). These funds will be used to cover cost-of-living-adjustments (COLA), salary, and other mandatory cost increases.

Under the Governor's proposal, the community colleges also receive a statutory COLA of 4.04 percent which equates to \$224.9 million.

**Student Fees.** In 2004-05, the Governor proposed to establish a long-term student fee policy aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal, the Governor instead chose to integrate these student fee principles into his "compact" with UC and CSU. In 2006-07, instead of furthering his policy, the Governor chose to "buy out" the previously agreed-upon fee increases for all UC and CSU students by providing both segments with state General Fund dollars (totaling \$129.4 million) to replace the amount of student fee revenue that will be lost due to retaining fees at their current-year levels.

For 2007-08, the Governor reverts to his previously-agreed up compact and increases fees at both UC and CSU. Instead of initially proposing specific fee increases in November of 2006 as is traditional, the UC and CSU instead proposed system budgets that contained revenue and resource assumptions – stating that those revenues could come either from the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase.

For UC, the Board of Regents budget states a need for approximately \$70 million from either state funds or a fee increase. This equates to revenues equaling a seven percent fee increase (after approximately \$36 million is returned to student financial aid) for most students, although some professional school students will see fee increases of closer to ten percent. At the CSU, the concept is the same although the calculations are slightly different. The CSU Board of Trustees budget proposal states a need for approximately \$65 million in revenues, which could be derived from either the state General Fund or increased student fees. In the case of CSU, this equates to a ten percent increase in student fees (after approximately \$32 million is returned to financial aid). In both cases, the Governor opted to increase fees rather than buying out the fee increases.

The Governor is proposing that fees at the community colleges -- which were reduced from \$26 to \$20 per unit in the current year -- remain constant.

**Student Academic Preparation Programs.** The Governor's Budget again fails to provide any state support (General Fund) for either UC or CSU's Student Academic Preparation or Early Assessment Programs. This equates to a loss of \$26.3 million for these programs (\$19.3 million for UC and \$7 million for CSU). As part of the 2005-06 budget process, the UC convened a bipartisan working group of university, legislative, and Administration representatives to address the Administration's concerns with the various Academic Preparation programs. In light of the efforts undertaken by the Legislature and the higher education segments to resolve any outstanding issues, it remains unclear why the Administration continues proposing the elimination of state funding for these programs.

## 6440 University of California

**Background.** The University of California (UC) was founded in 1868 as a public, state-supported land grant institution and was established constitutionally in 1879 as a public trust to be administered under an independent board, known as the Regents of the University of California. The Board of Regents consists of 20 members appointed by the Governor, one student member appointed by the Board, and seven ex officio members.

The original 1960 Master Plan for Education designates the University of California as the primary state-supported academic agency for research and instruction in the professional fields of law, medicine, dentistry, and veterinary medicine. The UC consists of ten campuses -- Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz -- which offer undergraduate, graduate, and professional education. UC Merced, which is located in the Central Valley, is the newest of the UC campuses and recently opened to students in the Fall of 2005. The University of California, San Francisco, is solely dedicated to the health sciences. In addition to its instructional facilities, the university operates teaching hospitals and clinics at the San Francisco and Los Angeles campuses, as well as operating the Sacramento, San Diego and Orange county medical facilities.

### Summary of UC Expenditures

(dollars in thousands)

	2005-06	2006-07	(Proposed) 2007-08	\$ Change	% Change
<b>General Fund</b>	<b>\$2,838,567</b>	<b>\$3,077,984</b>	<b>\$3,270,067</b>	<b>\$192,083</b>	<b>6.2%</b>
Public Transportation Account	980	980	980	--	--
Cigarette and Tobacco Products --					
Research Account	14,253	14,253	14,253	--	--
Earthquake Risk Reduction Fund of			1,000		
1996	1,000	1,000		--	--
Oil Spill Response Fund	1,300	1,300	1,300	--	--
California State Lottery Educ. Fund	30,939	31,370	31,370	--	--
Federal Trust Fund	3,500	3,500	3,500	--	--
Federal Funds (not in state treasury)	16,550	17,000	17,000	--	--
Breast Cancer Research Fund	633	473	778	305	64.5
<b>Higher Education Fees and Income</b>	<b>1,942,902</b>	<b>1,998,040</b>	<b>2,150,998</b>	<b>152,958</b>	<b>7.7</b>
UC Funds	6,478,671	6,871,137	7,196,020	324,883	4.7
Reimbursements	2,516	1,496	4,820	3,324	222.2
Health Care Benefits Fund	1,725	235	1,997	1,762	749.8
UC Federal Funds	6,399,721	4,400,963	4,479,708	78,745	1.8
UC Nonfederal Unclassified Funds	1,872,295	1,895,983	1,972,479	76,496	4.0
<b>Total Expenditures, All Funds</b>					
Total	\$19,618,355	\$18,328,790	\$19,159,346	\$830,556	4.5%

**UC Merced.** The new UC Merced campus opened to 865 FTES in the 2005-06 academic year, falling short of its goal of reaching 1,000 FTES by the end of the 2005-06 academic year. In the current year, the campus expects enrollments of approximately 1,350 FTES, again, falling short of its original goal of 1,800 FTES. The campus expects to grow by 800 students annually through the 2010-11 academic year, for a total enrollment of 5,000 FTES. With these new students, the campus will now receive enrollment funding totaling \$21.8 million in 2007-08; however, given that the Merced campus has not yet been able to achieve any "economies of scale" the campus still requires an additional appropriation from the state. For 2007-08, the Governor proposes to continue providing a total of \$24 million for the start-up costs associated with the Merced campus; of this amount, \$14 million is one-time. These funds are used primarily to hire a core staff of administrators and faculty, continue developing curriculum, and recruit faculty.

**Employer Retirement Contributions.** The UC Budget Proposal requested \$60 million in state funds to cover UC's employer costs of reinstating employer/employee contributions to its University of California Retirement Program (UCRP). This proposal was denied by the Administration and thus no funding was included in the Governor's January proposal.

**Research.** The Governor's Budget includes \$20 million General Fund, above the funding levels agreed to in his *compact*, to support two research initiatives at the UC. Of this amount, \$15 million is for the Institutes for Science and Innovation, bringing total state support to approximately \$19.8 million. While the infrastructure needs of the Institutes have, for the most part, been met, the funds will be used to support the core research functions. Funds will further be used to attract additional resources from industry and other governmental sources. The remaining \$5 million is to enhance UC's bid to win a National competition to build and operate a new petascale computing facility, which would become operational in 2011. The winner of the competition will build the world's fastest supercomputer and lead the next generation of National Science Foundation computer architectures and applications.

Offsetting the research funding increases discussed above, is the elimination of all state funding (\$6 million) for research activities related to Labor Studies.

**Student Fees.** As discussed earlier, the Governor proposes to increase student fees by seven percent to \$7,347 for Undergraduate students and \$9,481 for Graduate students. Additional fees, which are assessed on students enrolled in graduate-level professional schools (law, medicine, dentistry, optometry, pharmacy, veterinary medicine, theater/film/TV), are also proposed to increase by a like amount.

Fees for undergraduate students at the UC comparison institutions (the Universities of Michigan, Illinois, New York, and Virginia) averaged \$8,354 in **2006-07**, which is \$1,007 higher than the **2007-08** proposed fee levels for UC resident undergraduates. Fees for graduate students at UC continue to be approximately \$1,800 below those charged at its comparison institutions.

University of California Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$4,111	\$11,810	\$4,585	\$12,284
1995-96	4,139	11,838	4,635	12,334
1996-97	4,166	12,560	4,667	13,061
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03	4,017	16,396	5,017	16,393
<i>(fees increased mid-year)</i>				
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,802	24,622	8,708	23,669
2006-07	6,852	25,486	8,938	23,889
2007-08	7,347	27,027	9,481	24,466

Note: Actual fees may vary by campus depending on the particular level of campus-based fees. Data in the table include an *average* of the campus-based fees for the nine campuses.

Students in professional degree programs (i.e., medicine, dentistry, law, veterinary medicine, business) pay a supplemental fee, in addition to the fees noted above, that ranges from \$4,300 for students in public health, public policy, or international relations to \$19,000 for students in business/management and \$18,000 for students in law.

**Capital Outlay.** The capital outlay portion of UC's budget includes \$613.7 million for 28 new projects, as well as the continuation of existing projects. Of this amount, \$503.2 million would be derived from the 2006 Higher Education Capital Outlay Bond Fund and \$70 million would be financed through lease-revenue bonds; \$40.5 million in projects is being financed with UC funds. Following is a description of the most notable projects included in the Governor's proposal:

Telemedicine/Programs in Medical Education (PRIME) Facilities. UC proposes to continue efforts by its medical schools to address state objectives for (1) improved access to clinical services, (2) expansion of a systemwide network for telemedicine services, and (3) an increase in the number of doctors to meet California's needs. This project would provide specialized medical education and telemedicine facilities to train physicians to serve in medically-underserved areas and to provide specialist care and health education not readily available in

those communities. Governor's budget proposes \$227.7 million from a combination of GO Bond Funds (approximately \$200 million) and UC funds (approximately \$28 million) for all capital outlay phases (planning, working drawings, construction, and equipment).

Helios Research Facility. UC is proposing to construct a new research facility to be located at the Lawrence Berkeley National Laboratory. The Helios Research facility – which the Governor proposes to finance using \$30 million of lease-revenue bonds – would focus on the development of renewable and sustainable forms of energy drawn from sunlight. Ultimately, research would strive to use sunlight to manufacture transportation fuel, improve the conventional biomass conversion process, and convert sunlight to fuel. Funds are proposed for planning, working drawings, and construction.

Energy Biosciences Institute Facility. The Governor's Budget provides \$40 million in lease revenue bonds contingent upon UC winning a competition for the BP Corporation's Energy Biosciences Institute grant. The Institute's work is proposed to coordinate closely with that of the Helios Research Facility in that it will focus on converting biomass materials into fuels, converting fossil fuels to energy with less environmental damage, and maximizing oil extraction from existing wells in environmentally sensitive ways.

## 6600 Hastings College of the Law

**Background.** Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and became affiliated with the University of California in the same year. Policy development and oversight for the college is established and carried out by a board of directors who are appointed by the Governor for 12-year terms. The juris doctorate degree is granted by the Regents of the University of California and signed by both the University of California President and the Dean of Hastings College of the Law.

**2007-08 Budget Changes.** While not explicitly included in the Governor's *compact* with higher education, the Administration has consistently opted to afford the provisions of the compact to Hastings College of the Law. Specifically, the budget provides Hastings with a four percent General Fund increase (\$406,000) for basic budget support. The effect of this increase will help mitigate some of the reductions faced by the college in recent years. While the compact also includes budget adjustments at UC and CSU to accommodate enrollment growth, Hastings enrollment levels are, and have remained, stable for a number of years thereby negating the need to fund growth.

**Student Fees.** After large fee increases of approximately 34 percent in the 2004-05 year, fee levels at Hastings remained relatively constant in 2005-06 with an increase of approximately \$2,000 for residents (\$22,297 total in the current year). Like UC and CSU, the Governor and the Legislature "bought out" proposed fee increases of eight percent in the current year.

For 2007-08, fees at Hastings are proposed to increase by eight percent, resulting in an additional \$2 million in revenue available to Hastings. Fees for resident students will be \$23,768 while fees for nonresident students will rise to \$34,993.



## 6610 California State University

The California State University (CSU) system is composed of 23 campuses, including 22 university campuses and the California Maritime Academy. Administered and managed by an independent governing Board of Trustees, the CSU has achieved a high level of academic excellence through distinguished faculty and high-quality undergraduate and graduate level instruction. Each campus in the system is unique, with its own curriculum and character; however, all campuses require a basic “general education” breadth curriculum regardless of the institution or baccalaureate-level major of study. In addition to providing baccalaureate and masters level instruction, the CSU trains approximately 60 percent of California’s K-12 teachers and administrators, and in limited circumstances, has the ability to jointly offer doctoral level education with the University of California and private and independent institutions.

### Summary of CSU Expenditures

(dollars in thousands)

	2005-06	2006-07	(Proposed) 2007-08	\$ Change	% Change
<b>General Fund</b>	<b>\$2,596,000</b>	<b>\$2,811,384</b>	<b>\$2,976,335</b>	<b>\$164,951</b>	<b>5.9%</b>
<b>Higher Education Fees and Income</b>					
(reclassified as CSU Trust Fund – please see below)	<b>1,230,748</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>CSU Trust Fund</b>	<b>--</b>	<b>1,243,433</b>	<b>1,366,398</b>	<b>122,965</b>	<b>9.9</b>
State University Continuing Ed. Revenue Fund	135,561	133,328	133,328	--	--
CSU Dormitory Revenue Fund	221,315	200,965	200,965	--	--
CSU Parking Revenue Fund	32,002	36,724	36,724	--	--
California State Lottery Educ. Fund	45,784	68,372	51,084	-17,288	-25.3
Federal Trust Fund	36,919	39,500	39,500	--	--
Federal Funds (not in state treasury)	353,693	354,000	354,000	--	--
Other Unclassified CSU Funds	1,303,303	1,305,709	1,305,709	--	--
Reimbursements	201,939	183,262	1,862	-181,400	-99.0
2004 GO Bond Fund	26,000	--	--	--	--
2006 GO Bond Fund	--	50,000	50,000	--	--
CSU Auxiliary Organizations	283,787	260,013	260,013	--	--
<b>Total Expenditures, All Funds</b>					
Total	\$6,467,051	\$6,686,690	\$6,775,918	\$89,228	1.3%

**Other 2007-08 Budget Changes.** In addition to the budget changes discussed earlier in this document, the Governor proposes to provide an additional \$2.0 million in funding (for a total of \$2.7 million) for his new Math and Science Teacher Initiative in order to encourage CSU to double the number of teachers it trains in these particular teaching disciplines.

No new funding is contained in the Governor's proposal for CSU to provide nursing-related education; however, the Governor's proposal *does* require the CSU to direct a portion of its general campus enrollment growth dollars toward growing its nursing programs by 340 FTES.

**Student Fees.** As discussed earlier, the Governor proposes to increase student fees by ten percent to \$3,451 for Undergraduate students and \$4,093 for Graduate students. Nonresident tuition for out-of-state students is proposed to remain constant at \$10,170 (above the amount paid by resident students).

Fees for undergraduate students at CSU's comparison institutions (including, Rutgers University, University of Maryland, State University of New York and Arizona State University, among others) averaged \$6,655 in **2006-07**, which is \$3,204 more than the amount proposed for CSU resident undergraduates in **2007-08**. For graduate students, fee levels at CSU continue to be significantly lower than at its comparison institutions, by over \$4,700 annually.

California State University Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
(fees increased mid-year)				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,164	13,334	3,746	13,916
2006-07	3,199	13,334	3,781	13,951
2007-08	3,451	13,334	4,093	14,263

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

**Capital Outlay.** The capital outlay portion of CSU's budget includes \$650.4 million in funding (from all sources) to start 26 new projects and continue existing projects. Of this amount, \$380.4 million is derived from the 2006 Higher Education Capital Outlay Bond Fund; \$1.8 million comes from funds remaining from the 2004 Higher Education GO Bond; \$20 million is from the

1998 Higher Education GO Bond Fund; \$247.7 million are university funds; and \$500,000 are reimbursed from other sources.

## 6870 California Community Colleges

The California Community Colleges system (CCC) provides a variety of general and vocational education programs at 108 community colleges throughout the state. The CCC offers academic programs that: (1) emphasize transfer courses for students continuing their education at CSU, UC or other institutions of higher education, (2) provide vocational training to enhance the education of California's work force, and (3) offer courses to students who need or desire basic education courses. In addition, the CCCs are also charged with administering many of the state's economic development programs.

### 2007-08 Proposed Adjustments

**Enrollment Growth.** The Governor's 2007-08 budget proposes to provide \$109.1 million to fund a two percent (or 23,000 FTE) increase in student enrollment. This exceeds the growth level (1.65 percent) derived by the formula proposed in Senate Bill 361 (Chapter 631, Statutes of 2006), which equally weights the 19 to 24-year old populations and the 25 to 65-year old populations. The total number of students enrolled in community colleges statewide is expected to surpass 1.1 million FTES.

**Cost-of-Living-Adjustment.** In addition to providing enrollment growth, the Administration proposes an additional \$224.9 million for a 4.04 percent COLA for general campus apportionments. An additional \$19.6 million is provided for Categorical program COLA and enrollment growth.

**Redirection of Unused Basic Skills "Overcap" Funding.** Prior Budget Acts have provided funding, in excess of enrollment growth dollars otherwise provided in the budget, specifically to fund students enrolled in Basic Skills courses where the college is otherwise over their enrollment growth "cap" or allocation. This funding stream is commonly known as Basic Skills "overcap" funding. In the current year, the Budget Act provided \$33.1 million for this purpose and in 2005-06 \$30.7 million was provided for this purpose. In each of these fiscal years, the amount of funding appropriated in the Budget Act was not necessary to fulfill the need for which it was appropriated. Rather than retaining the funding within the Basic Skills program for another purpose, the Governor proposes to redirect \$33.1 million in 2007-08 from Basic Skills "overcap" to the Matriculation Program. Of that amount, the Governor targets \$19.1 million specifically for counseling and tutoring services for students determined to be most in "need for those services, with a priority placed on assisting first time students transitions from high school to community college."

**Nursing.** The Governor proposes to increase funding for nursing at the community colleges by \$9 million (one-time) and \$9 million (ongoing). The one-time funds (Proposition 98 settle-up funds to be appropriated in the Education Budget Trailer Bill) are for the community colleges to start up five new nursing programs (\$5 million) and create four new regional nursing simulation laboratories (\$4 million). Of the \$9 million in ongoing funds, \$5.2 million is scheduled to augment the community colleges attrition-reduction programs for nursing students and \$3.8

million will be used to provide incentive funding for districts to offer additional prerequisite courses in anatomy, physiology, and microbiology.

**CalPASS.** The Governor provides an additional \$1 million (from Proposition 98 settle-up funds) to support the CalPASS program, which eases student transition among K-12, the community colleges, and the four-year higher education institutions.

**FCMAT.** Governor's proposal includes \$350,000 to increase the involvement of the Fiscal Crisis Management Assistance Team (FCMAT) in the community colleges.

**Student Fees.** No changes are proposed. Fee levels remain at the recently-reduced level of \$20 per unit. At \$26 per unit, approximately 43 percent of community college students were eligible for Board of Governor (BOG) Student Fee Waivers. Without data available from the recent academic term (when student fees were reduced to the \$20 level), the Administration continues to budget under the assumption that the same percentage of community college students will remain eligible for BOG waivers in 2007-08.

**Proposition 98 "Split."** General Fund Proposition 98 support for community colleges is proposed to increase by 6.4 percent over the current year, thereby increasing the community college's "share" of Proposition 98 from the current-year (Budget Act) level of 10.74 percent to 11.06 percent in 2007-08. This level exceeds the statutory "split" of Proposition 98 resources between K-12 and community colleges as outlined in state law, and is due primarily to a \$627 million shift of K-12 Home-to-School Transportation Program dollars out of the K-12 budget to the Public Transportation Account, which dramatically increases the community college's share of a now smaller Proposition 98 appropriation.

In total, community colleges would receive \$6.3 billion (from all funding sources) under the Governor's proposal, which represents an increase of approximately \$380 million.

**Capital Outlay.** The capital outlay portion of the Community Colleges budget includes \$1.1 billion in funding (from all sources) to start 60 new projects and continue existing projects. Of this amount, \$894 million would be derived from the 2006 Higher Education Capital Outlay Bond Fund; \$149.8 million is remaining from the 2004 Higher Education GO Bond; \$13.4 million is comes from the 2002 Higher Education GO Bond; and \$24.6 million is left from the 1998 Higher Education GO Bond.

## 7980 Student Aid Commission

The Student Aid Commission (SAC) administers federal and state student financial aid programs including grants and work study for postsecondary students attending California educational institutions. EdFUND, a nonprofit auxiliary of the SAC, administers a variety of federally-backed student loan programs for both California and out-of-state students. The SAC provides leadership on financial aid issues and makes policy recommendations concerning student financial aid programs. In addition, the SAC compiles information on student financial aid issues, evaluates financial aid programs compared to the needs of the state's student population,

and provides financial aid information to students, parents, and California's education community.

**Background.** In 2000, the Legislature passed and the Governor signed into law, SB 1644 (Chapter 403, Statutes of 2000) which dramatically expanded the scope of the Cal Grant program and re-tooled the eligibility criteria to ensure that all financially needy and academically meritorious students are guaranteed a grant to attend college. Under the new Cal Grant Entitlement Program, all graduating high school students who meet specified grade point average (GPA) and income requirements are guaranteed a state grant for up to four years. Cal Grant awards generally cover the cost of fees at public colleges and are worth between \$5,250 and \$9,708 at private colleges and universities. In addition, the Cal Grant B, which is provided to students with exceptional financial need, includes a living allowance of approximately \$1,551 per year.

Under current law, in order to be eligible for a Cal Grant A award, a student must have a minimum GPA of 3.0 ("B" average) and must not exceed the family income limit, which in the budget year, will be approximately \$73,200 for a family of four or \$84,600 for a family of six or more. Students with GPAs under 3.0, but higher than a 2.0 ("C" average), are eligible for a Cal Grant "B" award provided their annual family income does not exceed \$38,500 for a family of four. In addition, community college students who meet specified GPA and income requirements and transfer to a four-year college or university prior to age 24 years, are also eligible to receive an award. Students who did not qualify for the Cal Grant Entitlement Program (either due to age, GPA, or income requirements) have a "second chance" to receive a Cal Grant and are eligible to compete for a block of 22,500 annual awards, provided they are financially and academically eligible. Of the 22,500 awards, 11,250 are reserved specifically for community college students.

The Student Aid Commission estimates that the total number of Cal Grants awards will reach approximately 197,425 in the 2007-08 fiscal year.

**2007-08 Budget Changes.** As part of his 2007-08 budget, the Governor proposes to maintain eligibility for, and award levels within, the Cal Grant program, with the following exception of covering the increased mandatory fee levels proposed for the UC and CSU systems (as discussed previously in this section).

#### **Other Budget Adjustments.**

The Governor proposes several budgetary changes in the Assumption Program of Loans for Education (APLE) including: (1) an additional \$2.9 million to fund the increase in loan assumptions coming due; (2) the authorization of 8,000 APLE warrants annually with an earmark of 600 awards to be set-aside for students participating in the Governor's Math and Science Teacher Initiative at UC and CSU (a proposal which has been rejected by the Legislature for several years in a row); (3) the repayment of National Guard APLE warrants authorized in the current year Budget Act; and (4) the extension of the sunset date for the National Guard APLE program (through the budget trailer bill).

**6445 California Institute for Regenerative Medicine (CIRM)**

Established pursuant to Proposition 71 as passed by the voters in 2004, the California Institute for Regenerative Medicine (CIRM) will administer the issuance of \$3 billion in bond proceeds authorized for stem-cell research and assure that the bond funds are used pursuant to the intent of the voters. Proposition 71 created an Independent Citizen's Oversight Committee as CIRM's governing body. The Citizen's Oversight Committee is responsible for the daily operations of the CIRM and appoints members to the advisory groups charged with developing and maintaining accountability standards, reviewing grant bids, and constructing bond-funded research facilities.

For 2007-08, the CIRM proposes to expend \$832.3 million of continuously-appropriated bond proceeds (*Health and Safety Code*, Section 125291.20) derived from Proposition 71. Staffing for the Institute is proposed to increase to 50 positions, totaling \$6.5 million. Included in the current year is the repayment of a \$153 million General Fund loan provided to CIRM for start-up costs as part of the current-year Budget (*Health and Safety Code*, Section 125290.70).